A SYNOPSIS

ON

SEGMENT REPORTING PRACTICES: A STUDY OF SELECTED OIL AND GAS COMPANIES IN INDIA.

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INTRODUCTION

The traditional method of measuring the financial performance gives the overall financial performance only. It will not provide rooms for taking profitable decisions. Hence, the new method of segment wise presentation is insisted by the Accounting Standard 17. The segment reporting helps to know the stakeholder the future profitability and performance of the company, segment wise in order to take tentative decision. It also shows transparency of the business reports and locates which segment is in what position.

Segment reporting is the reporting of the operating segments of a company in the disclosures accompanying its financial statements. Segment reporting is required for publicly-held entities, and is not required for privately held ones. Segment reporting is intended to give information to investors and creditors regarding the financial results and position of the most important operating units of a company, which they can use as the basis for decisions related to the company.

An **operating segment** is a component of an entity that is a profit centre, that has discrete financial information available, and whose results are reviewed regularly by the entity's chief operating decision maker for purposes of performance assessment and resource allocation. An operating segment generally has a segment manager who is accountable to the chief operating decision maker for the results of the segment.

A **business segmen**t is a part of a company that can be identified by the products it provides or by the services or geographical locations it operates in. In other words, it is a single part of a business that can be distinctly separated from the company as a whole based on its customers, products, or market places.

The information's included in segment reporting are:

- The factors used to identify reportable segments.
- The type of product & services sold by each segment.

- The basis of organisation (such as being organised around a geographical region, product line & so forth).
- Revenues.
- Expenses.
- Depreciation or amortization.
- Profit & loss.
- Other items.

The present era has witnessed an irreversible trend of political, economic, commercial and technological independence, which has led to the concept of global economy, global business and global resource management. The corporate sector is developing in leaps and bounds, horizontally and vertically. Many companies provide groups of products and services or operate in geographically areas that are subject to differing rates of profitability, opportunities for growth, future prospects and risks. The following may be shown as importance of segment reporting:

1. Information about various products and services of a company and its operations in different areas often called segment information is relevant to assess the risks and returns of a diversified or multi locational company which may not be ascertainable from the consolidated accounting statements.

2. The segment reporting facilitates provides better transparency of the financial data of an enterprise.

3. This helps the readers of the financial statements to reach at a more judged quality decision making in respect of the horizontal and vertical divisions of any enterprise.

4. Segment reporting is definitely a right step in the right direction towards improving the quality of financial statements.

Why Oil & Gas Industry?

1) With growing economy & population, Oil & Gas demand, increases every year and this makes India the 3rd largest consumer of crude oil & petroleum products in the world after United States & China.

2) Oil & Gas contributes about 34.4% to primary energy consumption in India.
3) The Oil & Gas sector is highly liberalized to attract private investment and to increase domestic production.
4) The Government is focused on providing access to affordable, reliable, sustainable & modern energy to every citizen. In a bid to promote clean cooking fuel, the Government has planned to increase LPG coverage by providing 100 million new LPG connections till 2019.
5) According to data released by the department of industrial Policy and Promotion (DIPP), the FDI worth US$ 6.8 billion between April 2000 & December 2016.

REVIEW OF LITERATURES

Literature review means to find other articles, books or information about the subject of research. One of the purposes is to show that the subject is worthy of researching because others have also researched it. It also gives you a place where to begin to write and research the subject.

In the view of last few years' research these studies have been conducted so far:-

INTERNATIONAL LITERATURE:					
Sl. No.	**Topic**	**Author**	**Year**	**Objective**	**Finding**
1.	A Perspective On Segment Reporting Choices And Segment Reconciliations.	Dana Hollie; Shaokun(Carol) Yu	2015	This study reviews the history of segment Reporting including segment reporting choices and segment reconciliations. The value relevance of segment reconciliations and its market Consequences and the importance of segment reporting to management.	The current prescribed segment reporting standard, after years of application, is still debated in the accounting literature. Some aspects of its approach have been examined and the results are mixed. Segment reconciliation may involve issues with earnings measurement, including: (a) variations between management determined performance measurements at the segment level and traditional GAAP earnings measurements at the firm level, (b) un-reportable segments, and (c) unallocated items such as costs, expenses, revenues, or gains.
2.	Towards the Usefulness and Implications of Segment Reporting	J.O. Odia; V.U. Imagbe	2015	The paper examines the usefulness and implications of segment reporting standards based on the	The presentation of segment information in the notes to the accounts is to provide users with

	Standards.			review of extant literatures.	information about the different business and geographical segments of a diversified entity's operations in order to enable investors and other users to make informed decision about the entity. Segment data of a firm is very important because it can aid its comparability with other firms in the industry from one year to another with similar Information. Notwithstanding the importance of segment disclosures, it represents one of the greatest gaps in the financial reporting of today.
3.	The Impact of Segment Reporting Under the IFRS 8 and SFAS 131 Management Approach: A Research Review	Nancy B. Nichols; Donna L. Street; Ann Tarca	2013	This paper evaluates the impact of adopting the management approach for segment Reporting.	This study reported on effect on application of SFAS 131 and IFRS 8 on the number of reported operating segments and items of disclosure, segment reporting gaps and reconciliations, entity wide geographic disclosures, and competitive harm and decision usefulness of segment information. They SFAS 131 and IFRS 8 on the number of reported operating segments and items of disclosure, segment reporting gaps and reconciliations, entity wide geographic disclosures, and competitive harm and decision usefulness of segment information.

4.	Operating Segments: The Usefulness of IFRS 8	Louise Crawford ; Heather Extance; Christine Helliar; David Power	2012	To examines whether segmental disclosure by UK companies changed after the introduction of IFRS 8. Secondly, to investigates whether a sample of users, preparers and auditors considered whether IFRS 8 provided more decision-useful information than its predecessor, IAS 14R.	It was found from the analysis of the financial statements of companies before and after the introduction of IFRS 8 suggest that the segmental information reported has changed. For instance, the number of segments increased on average, and the size of the segmental note rose for the typical company studied. The other conclusions to emerge from the analysis of company financial statements are that the identity of the chief operating decision maker (CODM) was not provided by companies. Overall, the issues raised by some of the interviewees, particularly the users, and the findings that emerge from the financial statement analysis suggest that a continued Review of the standard on segmental reporting (IFRS 8) would be worthwhile.
5.	Segment Reporting Practices in Australia: Has IFRS 8 Made a Difference?	Helen Kang; Sidney J. Gray	2012	This study examines changes in segment reporting in Australia following the adoption of the International Accounting Standard, IFRS 8 Operating Segments.	Our findings indicate that concerns raised by Practitioners regarding substantial changes to segment disclosures due to the adoption of AASB 8 have not eventuated. While, as expected, the average number of reportable segments per company has increased under AASB 8, there has been little change in the nature of segment

					information actually being disclosed in the annual report.
6.	Competitive Harm And Business Segment Reporting Under Ifrs 8: Evidence From European Union Listed Firms	Pedro Nuno Pardal; Ana Isabel Morais; José Dias Curto	2011	To study the influence of competitive harm on the level of segment disclosures under IFRS 8 using a large sample of firms from European Union.	It was found from the estimation of the model, in pre and post period of IFRS 8 adoption, that firm over performing their industry, operating in more concentrated industries and subject to higher labour power are still related to lower levels of segment disclosure on both periods.
7.	Segment Reporting (IFRS-14 And As-17); A Study of Commercial Banks In Kenya And India.	Martin Onsiro Ronald; Richard Nyangosi; Lumumba Martin	2011	To examine the adoption of IAS-14 by commercial banks operating in Kenya and AS-17 by commercial banks operating in India. Study and compare the items of disclosure for primary segment. Study and compare the items of disclosure for secondary segment. To examine whether the companies are disclosing the items required by the segment reporting.	It has been found that majority i.e. 88.46% and 96% (Indian units and Kenyan units respectively) have disclosed about their business segment. Other Indicators like segment revenue, segment results, segment assets, segment liabilities etc. have been disclosed by the sample units.
8.	The Sec Comment Letter Process And Segment Disclosure Deficiencies	Qian Wang	2009	This paper investigates the SEC comment letters, and companies' response letters related to segment disclosure, issued by and submitted to the SEC from August 1, 2004 to July 31, 2007.	The study found that that disclosure deficiencies related to aggregation of Segments are more likely to be intentional than other deficiencies. This paper also provides evidence that the SEC comment letter process helps companies to improve

					segment disclosure quality, resulting in enhanced analyst forecast accuracy and decreased forecast dispersion.
9.	Strategic Revelation Of Differences In Segment Earnings Growth	Qian Wang	2009	This study investigates the interplay of managers' motives to conceal versus reveal cross- segment differences in earnings growth rates in multi-segment firms.	This study found that proxies for proprietary costs of segment information disclosure are negatively associated with revealed growth differences, suggesting that managers tend to conceal this information from their companies' competitors. Conversely, managers whose companies are protected by a barrier to entry (higher capital intensity) reveal greater Cross-segment differences. Two measures of agency costs are negatively associated with revelation of cross-segment. Variability in earnings growth.
10.	Stuffing The Segment Sausage: Causes And Consequences Of Incomplete Allocation Of Corporate Income To Segment Under FAS 131	Qian Wang	2009	The study refer to the difference between summed segment earnings and corporate-level Income, when it exists, as the 'Gap'. Using a sample of 12,064 company-year observations provided by 3,357 multiple segment companies during the FAS 131 era of 1998-2006, this study examines the determinants of Gaps, and investigates	The results suggest that Gaps shield segment-level managers from risk (by excluding transitory income items from segment earnings), and from income Items arising from decisions not made at the segment level. We also find evidence that companies facing high proprietary costs and agency costs tend to disclose more and larger Gaps. Specifically, we

				whether summed segment earnings are more persistent and informative than corporate earnings when Gaps exist.	find that industry concentration and free cash flow have positive associations with the existence and the magnitudes of Gaps.
11.	Segment Reporting Under IFRS 8 – Evidence From Spanish Listed Firms	Pedro Nuno Pardal; Ana Isabel Morais	2005	To study the new segment disclosures characteristics under the adoption of IFRS 8. To identify items disclosed on firms' segment reporting and to know the level of compliance with the standard. To identify factors which are associated with higher levels of compliance with the standard.	The results showed that almost 79% of the Spanish listed firms have their Operating segments based on lines of business. Due to that fact, Entity-Wide disclosures are essentially based on geographical areas. A small portion of firms (7,6%) did not present any segment information and some indicated that they were single-segment firms. As for the determinants of disclosure compliance, the results evidence that size is statistically related to higher levels of disclosure and that higher profitability is Statistically related to lower disclosure scores. These results may evidence that under IFRS 8, firms still hide higher profits through segment Aggregation in order to reduce competitive costs.
<u>NATIONAL LITERATURE:</u>					
Sl. No.	**Topic**	**Author**	**Year**	**Objective**	**Finding**
1.	Impact of Segment	Nufazil Altaf	2014	To access the impact of segment reporting	Using regression analysis and taking

	Reporting On Stock Market Performance.			on the stock market performance & to analyse the segment reporting practices adopted by nifty 50 companies.	share price as dependent variable and business segments, geo-graphical segments, EPS and book value as independent variables results show that variations in Share price are explained by business segments, geographical segments, EPS and book value.
2.	An Appraisal of Segment Reporting Practices of Indian IT Industry	Raju Hyderabad; Kalyanshetti Pradeepkumar	2011	To analyse the number and type of segments identified by the sample IT firms; To identify mandatory and voluntary segmental disclosure practices; To analyse the management perception relating to importance, benefits and impact of segment Reporting.	It was found that only 55% of sample firms report three segments. The multiple-bourses listed firms identify more segments (62%) compared to single-bourse listed firms (40%). The majority identify business segments as primary segments and provide limited Mandatory information. Only 13% of sample firms provide all the mandatory details about segments. We conclude that Indian firms adopt standards standard half-heartedly than as a benchmark of good Governance. The Indian AS-17 on segment reporting expects firms to identify segments on the basis of "risk And rewards" principle rather than on the basis of "management approach" of IFRS 8.
3.	Segmental Disclosures By Wipro And Infosys.	M. R. Shollapur	2004	To identify segmental disclosures in corporate financial Reporting. To check the compliance of the	It was found that Wipro provides more detailed information on Segmental performance than Infosys. In

				accounting standard on segment reporting in segmental disclosures. To evaluate the contents of segmental disclosures in providing information required for investors and other parties and in the process identify the gaps in the segment Disclosures between a diversified company a highly specialized service providing company.	segmental disclosures, there is no scope of concealment of segment specific loss. AS-17 requires redefining business and geographical segments for the primary reporting format and secondary Format on the basis of degree of risk and return of each segment. The management's perception of risk-return rates of each segment should be spelled out in the annual reports.

NEED OF THE STUDY

It has been observed that the previous literatures on Segment Reporting was related to its importance perspectives and implications on commercial banks & IT industry, but no study has been found on any aspects related to Oil & Gas industry.

In the light of above discussion, the researcher has undertaken the study entitled "**Segment Reporting Practices: A Study of Selected Oil and Gas Companies in India.**"

1) This study will help to understand the segment reporting disclosure practices of Oil & Gas industry.
2) This study will help to understand the segment operating performance of Oil & Gas industry.
3) This study will guide to reach at more judged quality decision making in respect of Oil & Gas industry.
4) This study will help in creating the relationship between different companies regarding segment reporting practices & segment performance of Oil & Gas industry.

OBJECTIVES OF STUDY

The formulation of research objectives is done to clearly define objectives on which the researchers can focus while studying. The formulation of research objectives helps the researcher avoid the collection of data which are not necessary for understanding & solving problem that has been defined. The following will be considered as the main objectives of the study:

1) To study the legal framework of Segment Reporting.
2) To examine the Segment Reporting disclosure practices of selected Oil & Gas companies in India.
3) To evaluate the segment operating performance of selected Oil & Gas companies in India.
4) To compare the segment operating performance of selected Oil & Gas companies in India.
5) To study the investor's perception regarding segment reporting disclosure practices.

RESEARCH HYPOTHESES

To provide the scientific base to the findings, the researcher will be constructed the following Null Hypotheses (H_0):-

H_{01}: There is no significant difference in segment reporting disclosure practices of selected Oil & Gas companies in India.

H_{02}: There is no significant difference in segment operating performance of selected Oil & Gas companies in India.

H_{03}: There is no significant difference in perception of investors regarding segment reporting practices of selected Oil & Gas companies in India.

RESEARCH METHODOLOGY

A research process consists of stages or steps that guide the project from its conception through the final analysis, recommendation and ultimate actions. The research process provides a systematic, planned approach to the research project and ensures that all aspects of the research project are consistent with each other.

Research Design:

This research will be of descriptive & analytical. The research design & the steps adopted in research methodology are kept in focus with the objectives set for the study.

Sample Size & Selection Criteria:

1. Top 5 companies listed on S & P BSE Oil & Gas indices as on 1st April, 2013 will be taken on the basis of market capitalization.

Scrip Code	**Company**
500325	Reliance Industries Ltd.
500312	Oil & Natural Gas Corp. Ltd.
530965	Indian Oil corp. Ltd.
500547	Bharat Petroleum Corp. Ltd.
500104	Hindustan Petroleum Corp. Ltd.

2. A questionnaire will be distributed to users (professional & non-professional investors). These questionnaires will be distributed to 100 respondents on the basis of convenience sampling.

Period of study:

For the purpose of analysis of data, researcher will consider period of 5 years i.e. 2013-14 & 2017-18.

Collection of data:

The collection of data considers both primary & secondary data.

1) *Primary Data:* The primary data will be collected by floating a structured questionnaire on the basis of convenience sampling. The questionnaire will be served to 100 respondents.

2) *Secondary Data:* Secondary data regarding Segment Reporting will be collected from Annual report of the selected companies for respective years. Other relevant secondary data will be collected from websites, journals, business magazines and newspapers.

Statistical & Presentation tools:

For data analysis researcher may use various statistical tools like Average, Percentages, Chi - square, t-test or any other statistical tools. Selection of tools will be based on nature of data.

For presentation of data, graphs, tables, bar diagrams, line diagrams, pie charts, will be used for better understanding.

OBJECTIVEWISE RESEARCH METHODOLOGY

Sl. No.	Objectives	Research Methodology
1.	To study the legal framework regarding Segment Reporting.	To achieve this objective researcher will study different rules and standards regarding Segment Reporting.
2.	To examine the Segment Reporting disclosure practices of selected companies of Oil & Gas industry in India.	To achieve this objective researcher will frame the check list & on the basis of check list the researcher will examine the Segment Reporting practices of selected companies.
3.	To evaluate the segment operating performance of selected companies of Oil & Gas industry in India.	To fulfil this objective the researcher will compute different ratios of different segments of selected companies.
4.	To compare the segment operating performance of selected companies of Oil & Gas industry in India.	On the basis of different ratios, researcher will compare operating performance of common segments of one company to that of other.
5.	To study the investor's perception regarding segment reporting disclosure practices.	For this objective researcher will administrate the questionnaire to different investors.

PROPOSED CHAPTER PLAN

Chapter 1	Introduction.
Chapter 2	Review of literature.
Chapter 3	Legal framework of Segment Reporting.
Chapter 4	Analysis & Interpretation of Segment Reporting of selected Oil & Gas companies in India.
Chapter 5	Analysis & Interpretation of Segment performance of selected Oil & Gas companies in India.
Chapter 6	Comparative study of segment performance of selected Oil & Gas companies in India.
Chapter 7	Analysis & Interpretation of Investor's Perception.
Chapter 8	Finding, Conclusions & Suggestion Bibliography Appendix

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